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Trade and Transit

Evaluating the India-Middle East-
Europe economic corridor



The proposed India-Middle East-Europe economic corridor

The announcement of a new economic corridor spanning the trade route originating in India, through the Gulf Cooperation Council (GCC) and Jordan, extending across the Mediterranean towards Europe was declared during the recent G20 summit and clearly signifies the respective interests of each of the participants. The member countries have signed a Memorandum of Understanding (MoU) to formalise their involvement in this major project (The White House, 2023).

Although details of the corridor are not yet finalised, it is understood that it will comprise two sub-corridors, one between India and the Arabian Gulf and the other connecting the Arabian Gulf to Europe.

In addition to providing a significant new pathway for maritime and rail transportation connecting Europe and India, the project will also involve the installation of power, telecommunication and clean hydrogen distribution network infrastructure. It is envisioned that this project will not only offer direct import/export and transshipment financial benefits for the countries involved, but also have a broader socioeconomic impact, granting more reliable internet and power access to new regions.



Figure 1: Indicative corridor route. Blue arrows indicate marine transport routes, brown arrow indicates rail route. Sources: ESRI, USGS.

Comparison to other routes and the expected tangible benefits

Comparison to other routes

The India-Middle East-Europe Economic Corridor would provide an additional trade route for shipments between Europe and India, with proponents of the project confident in its success, particularly due to the anticipated 40% increase in trade speed (Financial Times, 2023).

Certainly, this route will encounter competition primarily from the traditional path around the Arabian Peninsula, passing through the Red Sea and the Suez Canal into the Mediterranean. Additionally, it will face competition from two land routes under China's Belt and Road Initiative, namely, the China-Central Asia-West Asia Economic Corridor and the New Eurasian Land Bridge, although these are less direct options. (OBOReurope, 2023).

The Red Sea Route

With approximately 12 percent of global trade and 30 percent of all shipping container traffic passing through each year, the historic route from East to West via the Red Sea and Suez Canal plays a pivotal role in international trade between India and Europe (World Economic Forum, 2021). The occurrence involving a stranded cargo ship, leading to a significant trade disruption, clearly emphasised Europe's strong reliance on the Suez Canal route (BBC, 2021). This risk of disruption is not the only concern when depending on a single predominant route: the absence of viable alternatives means that countries importing and exporting goods are less likely to receive competitive prices associated with transportation, resulting in economic value leakage from their respective economies.

To protect themselves from the risk of supply chain disruption and to enhance the competitiveness of transport pricing, an alternative trade route is likely to be appealing to countries at both ends of the new corridor, as well as those seeking to expand their regional share of the transport services market.

China's Belt and Road Initiative routes

The China-Central Asia-West Asia Economic Corridor and the New Eurasian Land Bridge are two routes heavily reliant on railway transportation. Although they may not directly compete with India-Europe routes, they may still impact India's export market: European importers may be more inclined to purchase goods from China.

As Europe and the Americas already have a sizeable reliance on Chinese imports, it is possible that they will seek to diversify their supply chains, therefore are likely to be interested in promoting the development of India's export capacity. In 2022, nearly 21% of goods imported to Europe were from China, with only 2% coming from India (European Commission, 2023). Additionally, the Belt and Road Initiative's reliance on rail transport through nations with uncertain long-term economic stability may introduce a higher level of residual risk compared to routes incorporating more marine segments.

Benefits to key regions using the proposed India-Middle East-Europe economic corridor for trade

India

The development of a major competitive trade route would directly impact India's aspirations to achieve high-middle-income status by 2047 (World Bank, 2023) and continue its performance of per capita GDP growth.

By securing access to European trade routes, India may be better equipped to formulate stronger strategies at both national policy and individual business levels. Additionally, a new corridor would diversify India's accessible trade routes, further safeguarding it against concentration risk. As a result, this enhanced security and diversification will attract more interest from investors and further develop its economy.

Europe

Europe's mentioned reliance on Chinese imports is something it will likely seek to decrease in the coming decades through diversification of its supply chain. The proposed corridor will provide access to the Indian market and further facilitate its growth.

Comparison to other routes and the expected tangible benefits

The ongoing expansion and continued growth of private businesses and associated capital markets in Europe are expected to encourage a stronger focus on enhancing financial performance. A more competitive and diverse transport and trade market is likely to go hand-in-hand with increased efficiency.

Additionally, as Europe continues to focus on reducing its greenhouse gas emissions and implements corresponding legislation, market participants will be compelled to explore more environmentally-friendly transport options. Routes with shorter distances, lower fuel usage and reduced emissions will ultimately be more competitive for European entities and experience increased usage. This heightened usage may, in turn, have an 'action at a distance' effect, encouraging developing nations to enact similar legislation to enhance market interoperability and efficiency.

Advantages for the GCC and other nations along the corridor

Aside from those primarily utilising the corridor for direct import and export purposes, intermediary countries will also enjoy distinct advantages.

First and foremost, these nations will experience a boost in transport-related revenues, including income from port fees and railway transportation services. The Suez Canal Authority, for example, recorded revenues of USD 9.4 billion in their latest financial year (Reuters, 2023). Additionally, countries will benefit from more competitive trade prices for goods passing through the corridor.

From an infrastructure perspective, these countries will witness an increase in the financial appeal of the constituent projects, ultimately making it easier for countries to secure financing on more favourable terms. This is likely to improve the overall financial performance of the projects, impacting not only transportation profit margins, but also domestic, import and export margins.

Both direct and indirect economic consequences may emerge from project development, transshipment as well as import/export volumes associated with each intermediary country. Directly, countries can anticipate foreign investment in the project, job creation and increased local spending by developers and operators. Indirectly, a successful project would increase business activity within each nation enhancing the overall appeal of the GCC as a destination for those looking to establish or expand their businesses.

The proposed twinning of railway infrastructure with power, telecommunication and hydrogen pipeline networks will also have a corresponding economic impact on each respective intermediary country. While the specific details of how these elements will be incorporated have yet to emerge, it is probable that there will be considerable efficiency in developing these projects concurrently, extending utilities coverage to areas that may otherwise have been unserved.

Key considerations in project planning and execution

For a project of this magnitude to be a success, there are some key factors that can be considered by constituent countries before detailed plans are drawn and projects are initiated.

The first essential requirement is to identify the key stakeholders to the project; while corridor users are undoubtedly important, it will be equally crucial to clearly identify and involve existing transport providers and regulatory bodies in each intermediary country. There may also be varying degrees of experience across the different transport modes (e.g. railways versus ports) between different countries. Therefore, it is essential for stakeholders to agree on a framework for project-related decision-making which considers national borders but is flexible enough to permit those with considerable experience to contribute to the project as a whole. This stakeholder engagement should extend beyond the project's design phase and continue throughout development and operation.

Simultaneously with this planning and stakeholder engagement effort, it is crucial to establish a comprehensive and balanced framework to ensure equitable interface arrangements. These agreements will cover various aspects, including the transition of goods between different transport modes such as ports, roads and railways and across national borders. These arrangements should also provide for the balancing of a diverse cost impact across the corridor intermediaries.

For instance, if one country has particularly challenging terrain but another does not, it may not be reasonable for the former to have a comparatively higher cost base than the latter, as the project would not exist if the former did not participate. Achieving this balance in agreements will be a complex but essential undertaking to ensure the project's long-term success. A measured approach is necessary to address and accommodate regulatory requirements across the corridor intermediaries. As goods transit between ports, they may cross multiple different land border interfaces, each governed by varying laws and regulations. These differences can be extensive, and their corresponding impacts need to be carefully balanced. For example, if a duty is found to be payable in one jurisdiction but not another, then the return to one country may differ from another if a balancing mechanism is not included in project agreements.

Critical success factors to transform this vision into reality

The global significance of this corridor is evident with the substantial positive impact it could make on both developed and developing countries. To increase the likelihood of successful corridor development, several critical activities must be undertaken:



Commitments from key stakeholders

The corridor will take years to mature, and it will require significant capital. Therefore, a strong political alignment and commitment is critical to successful delivery.



A robust business case

Despite the benefit of the project being well understood from a qualitative perspective, an effort to develop a clear quantitative business case for the development of the economic corridor should be made.

In addition, the corridor's performance will be as strong as its weakest link, requiring a detailed and robust operating model as a foundation for the business case.

This case will not only permit the project participants to clearly communicate the respective benefits it will have for their countries but will also facilitate the essential discussions required to prepare development and operating agreements among nations. The capital and operational expenditures of the project can be outlined, which can be equitably allocated between participant countries and a basis for tariffs and charging mechanisms can be developed.

Critical success factors to transform this vision into reality



A detailed commercial structure

Given the diverse mix of participants, their varied experience levels and infrastructure development requirements within each country, establishing a clear and agreeable commercial structure is essential.

The roles and responsibilities of each contributor must be made clear and the payments to and from each must be fair. Each participant must be suitably incentivised to strive for the success of the project while ensuring that the overall price is still attractive to service users compared to alternative competitive routes.



A fair procurement process

The magnitude of this project means that its procurement needs to be carefully undertaken.

Development of major infrastructure projects, especially those of considerable scale, can potentially result in significant value leakage from the very economies they are situated in. Purchase of imported goods and use of foreign contractors can be sources of such leaks. As such, the participant countries can aim to prioritise the use of locally produced goods and local expertise where possible.

Mechanisms that encourage the involvement of locally based infrastructure developers, transportation and logistics operators should be explored to preserve long-term value for the participating countries.



A strategic plan for market engagement

If the project is well-designed and executed, it is probable that the new corridor will maintain long-term market appeal, however, the success of the first five to ten years of the project will serve as an indicator of its long-term viability.

From an early stage, key project stakeholders should consider the markets they intend to connect on both sides of the corridor and develop a clear plan to engage the participants in these segments and facilitate meaningful discussions. By providing a liaison service to potential service users, they can begin assessing trade volumes and developing approximate pricing estimates which can eventually inform the tariff scale to be established for corridor usage, in a manner acceptable to the market.

The creation of a new economic corridor linking India and Europe holds the potential for substantial stability and value, benefiting both its users and the intermediary countries. However, its success will depend on meticulous planning and collaborative efforts.

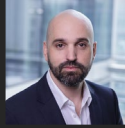
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